

***NATIONAL CHAMBER OF MILLING (INC)  
NATIONAL ASSOCIATION OF MAIZE MILLERS***

***CHAIRMAN'S REPORT  
ANNUAL GENERAL MEETING: 16 MARCH 2007***

Honored Guests, Ladies and Gentlemen.

**1. INTRODUCTION**

I present this chairman's report to you on behalf of the Board of Directors of both the National Chamber of Milling and the National Association of Maize Millers, with certain reservations as it is the third year in a row that an acting chairperson is chairing our annual general meeting.

Two years ago Allan Bishop's father passed away the day before the meeting and I had to stand in as chairperson at the very last moment. Last year Tjaart Kruger left the milling industry for the pharmaceutical industry and Allan Bishop then had to perform the duties of acting chairperson. This year Dominique Nelissen resigned from Premier Foods at the end of February and I again stand in to present the annual report. I do hope that this is not a pattern, and that the incoming chairperson will see out his term of office.

The attendance at our annual general meeting today is the best over the past decade, and I would especially like to thank the sponsors and suppliers to our industry for contributing in making this what I hope will be a memorable occasion.

I would like to mention a few highlights of the past year with particular reference to the achievements of the organization, and then to shift the focus to more burning issues that lie ahead, like the current situation regarding the drought in South Africa.

You would have noted from our agenda that we have changed the format of the AGM from prior years with a view to making it more interesting and informative to our members. To this end we have engaged speakers on a number of topics and new developments that we can look forward to in the future.

**2. INTERNATIONAL ECONOMY**

The economies of the world are still dominated by high oil prices and the adjustments being made to agricultural commodities in using them

to develop a bio-fuel industry internationally. We have already seen the results thereof with high maize prices internationally. The correction in the market at the end of February/beginning of March this year has also sent rippling effects throughout the world, although the fundamentals in terms of growth are still very much intact. The world is also adapting in its understanding of the role of China and the growth rate in China is still influencing commodity prices throughout the global village.

The failure of the World Trade Organisation to reach some form of agreement to eliminate agricultural subsidies and to level the playing field between the Developed World and the Developing World is still a huge disappointment to us. We are still hoping that a positive result from the Doha Round will bring some improvement in our competitiveness internationally. I would like to caution at this stage that the awakening of the bio-fuel industry, as well as a positive outcome of the Doha Round, could see some increases in our raw materials that would require a structural adjustment for consumers in South Africa.

### **3. SOUTH AFRICAN ECONOMY**

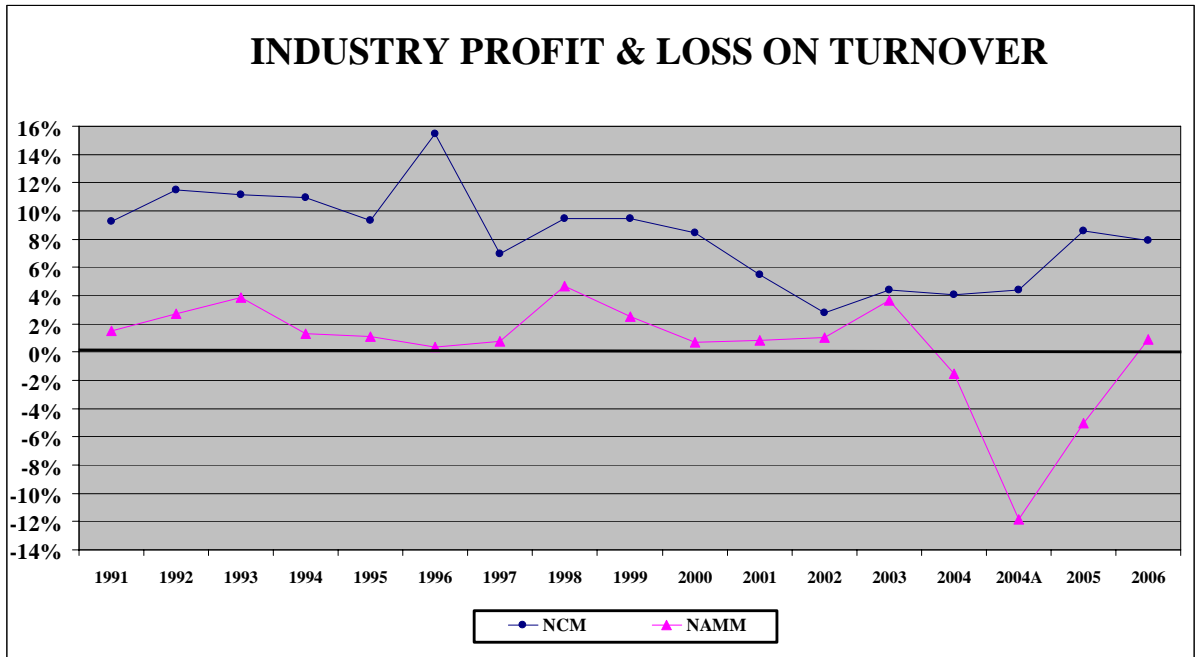
Without elaborating too much, the South African economy is very sound and is growing at a very rapid rate. While still not achieving the goals to substantially reduce unemployment, the macro economic indicators are most encouraging for any businessman. It is, however, noted that the *per capita* income in South Africa is increasing and we can already see it through the stagnation of maize meal sales.

From research undertaken we have noted that food price inflation could repeat the same exercise that happened in 2003 when the Consumer Price Index (CPIX) was pushed outside the Reserve Bank's maximum of 6% for a brief period of time. The current drought situation and increases in raw materials are having a similar effect as the depreciation of the Rand in 2003. This will put a lot of focus and pressure on the milling industry and the down stream suppliers of basic foodstuffs in the months ahead. We can only but hope that this situation will be temporary and that it would not need any further increases in interest rates that could hamper further growth in the economy.

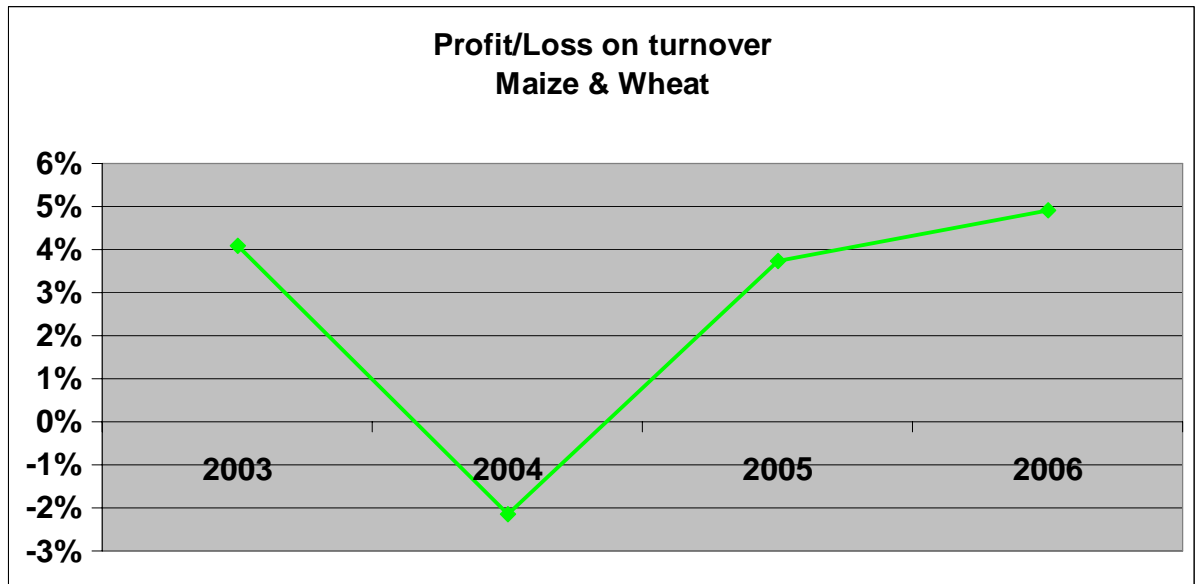
### **4. MILLING INDUSTRY**

The year under review turned out to be one of the better ones for the milling industry, as the profit on turnover for the maize milling industry went into the green for the first time in three years. We could, however, not make the 1% profit on turnover before tax and interest.

In the wheat milling industry the profit on turnover was 7.9% which is a fraction more than the average achieved over the past 17 years.



If we combine these two numbers, the milling industry in South Africa has earned 4.91% profit on turnover. If we compare that to current investment rates, we could have earned more in interest as well as avoiding the huge risk involved in milling today.



With the JSE All Share Index growing at an all time high of 41.2%, it is clear that we are not experiencing the same profitability as other sectors of our economy. Yet as a staple food supplier we are constantly in the spotlight when it comes to price increases and profits declared.

*[The farmers are accusing us of manipulating the raw material prices on SAFEX, the Competition Commission is accusing us of collusion at retail level and yet we can't even get to earn more profits than the current investment rates for fixed deposits. Something is wrong!]*

The Board of Directors spent some time during the course of the review period to refocus Management's efforts to add value to the bottom line of our members. The committees have in their various reports, which are in your documentation, listed their achievements but I would like to highlight some of those.

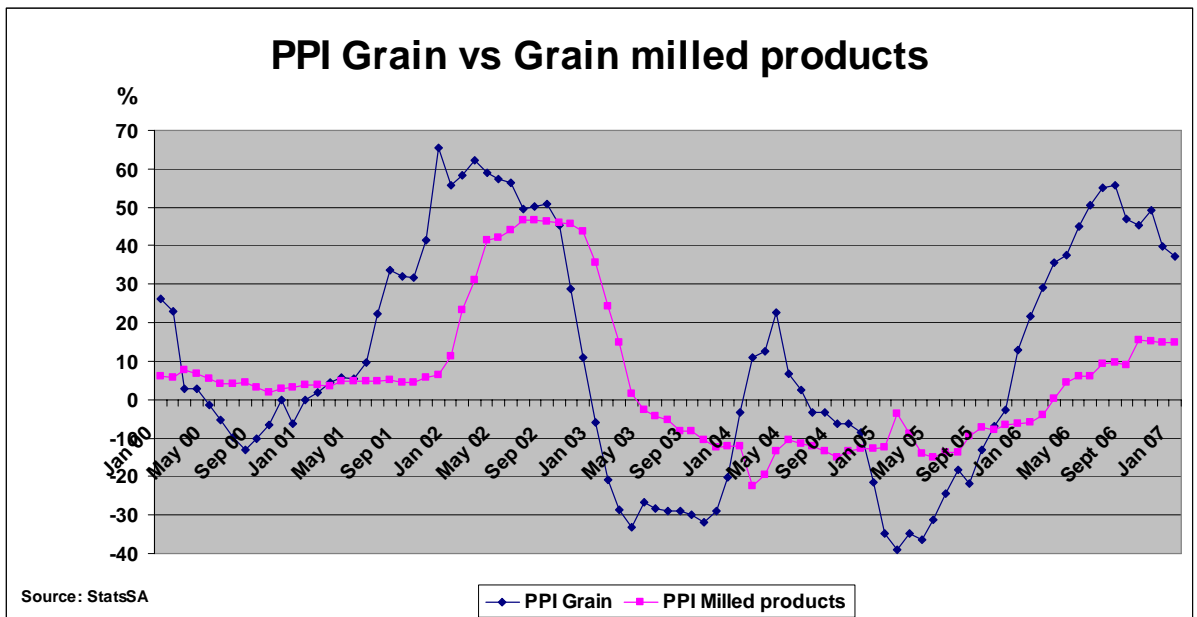
The Chamber is still playing a major role in terms of leadership in the grain value chain. This is done through a number of interventions and assistance to partners throughout this value chain. The substantial improvement in the crop estimates, especially maize, were directly attributable to work done through our organisation.

Together with other role players we have commenced with an initiative to begin the generic advertising of maize meal in an effort to stabilise and grow our market. I would like to express the Chambers appreciation to the Maize Trust for availing ± R28 million for this purpose and we are confident that this will be of direct benefit to all our members (a full detailed presentation will be done later on in our programme).

Another issue that will contribute substantially towards the wellbeing and competitiveness of this industry is the rewriting of the agricultural tariffs and trade policy for South Africa. Our Executive Director formed part of the authors group of this document that is to be tabled at Cabinet level.

Members requested some intervention and research on the impact of the bio-fuel strategy on the basic food industry. We have submitted comments on the proposed bio-fuel strategy and have also flagged some of the implications at the highest level, with meetings between the agricultural sector and President Thabo Mbeki. Our indications are that a basic food price like maize meal could increase by between 10% and 15% which is directly attributable to the decrease in the offal prices by competing with the distilled dried grain solids (DDGS - by-product in the ethanol production process) in the animal feed market. The impact on bread is not as substantial but could be as high as 7% for similar reasons.

The increases in the cost of our raw materials resulting from the current drought situation are of huge concern to us. In analysing the Production Price Index (PPI) and the Consumer Price Index (CPI) figures published by Statistics South Africa, it is very evident that huge price increases in maize meal and bread are still to come.



If the volatility in the current stock markets continues, it could result in a double whammy with the added depreciation of the Rand. The milling industry can only assure the consumers of a consistent supply of safe food during such time but the affordability of basic foodstuffs will definitely be an issue in the months to come.

Our industry is also playing a bigger and bigger role in supplying food aid to our neighbouring countries in Africa. It was reported late in 2006 by the World Food Programme that South Africa is by far the biggest supplier of food aid to the World Food Programme in African countries.

I would like to share another phenomenon that is currently characteristic of the relationship between Government and private sector at the moment. There was always this talk about a '*Public Private Partnership (PPP)*' but it never materialised in the early days of the new South Africa. Currently we are experiencing a very positive relationship between organised industry and Government to improve on the delivery to the people of South Africa. This is putting a lot of pressure on our resources on an organised industry level but is paying off for both partners in this relationship. The Chamber is availing its expertise and business skills to Government officials to enable the delivery of political promises with regard to economic growth, job creation, new economic policies, etc. Through our leadership our Executive Director is also currently the chairperson of the Agricultural CEO Forum advising Government and the President at the highest level.

We have also appreciated the recommendations by the Ministerial Committee investigating the Marketing of Agricultural Products Act in confirming that the free market mechanism for agriculture and

agribusiness in South Africa is still the best possible way to serve the economy.

Our technical people are still battling to improve the situation with regard to the grading of our raw materials as there is no dispute settlement mechanism in place. The proposed changes to the grading regulations are always linked to monetary values and therefore very difficult to negotiate with producers.

The number of millers trained through our Grain Milling Federation has increased and we have a very sound training course that is adding value to our members. At long last we can report that NQF2 and NQF4 learner ships have been approved by the South African Qualifications Authority. However, the NQF4 has not been published as yet. Although we have these in place, we still experience a shortage of registered training providers. The Board of Directors has, therefore decided to upgrade our own study materials so as to maintain our standards until such time as more training providers pick up the ball.

Emanating from the Directors meetings during the course of the year is a proposal that the two organisations (NCM and NAMM) amalgamate to form a single Milling Chamber with a joint constitution. This matter will be discussed later on this morning in our closed session.

## **5. CONCLUSION**

In conclusion I would like to thank Dominique Nelissen for leading our organisation over the past 11 months. His willingness to facilitate and organise some of the speakers for this event is a clear indication of his commitment to this industry and organisation.

I would also like to thank Allan Bishop for the years of leadership and insight that he has given this organisation. We will recognise this tonight when we bestow upon him an honorary life membership for his contribution to the industry.

Another old war horse is Alan Fowler from Ruto Mills who is retiring at the end of next month. *Alan, thank you very much for the huge contribution you have made on the technical side to improve the quality of our raw materials in this country.* This initially as a Wheat Board official and later as the driver of the good work that was done from the private sector perspective. Alan will also receive honorary life membership tonight when we will say a few words more.

Our staff had a tough year as we have seen some new faces replacing old in our staff complement. At this stage I would like to thank Anne-Marie for organising this event.

At the end of this month Anne-Marie will have had 25 years in the service of the industry (S A Chamber of Baking and National Chamber of Milling), her knowledge and skills are well applied and is acknowledged by the attendance of these events every year.

Jannie will also complete his 20<sup>th</sup> year at the Chamber of Milling at the end of this month. Between these two staff members we have a wealth of knowledge and experience and they are serving the industry well.

I sincerely hope that each and every one of you will participate fully in today's proceedings, and that you extract value from the presentations in the hope of improving our competitiveness and service to the South African population at large.

Thank you very much.

**CHRIS IMMELMAN**  
Acting Chairman